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The Pennsylvania Tobacco Situation

By H. Andrew Hanemann



CUTTING TOBACCO IN LANCASTER COUNTY, PENNSYLVANIA

C. G. JORDAN, *Secretary of Agriculture*
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THE TOBACCO SITUATION

Cigar production fell from eight billion in 1920 to six and one-half billion in 1925. During the same period the output of cigarettes nearly doubled.

Although total cigar production is apparently decreasing, the output of five cent cigars, in which Pennsylvania tobacco is chiefly used, is increasing.

Pennsylvania leaf tobacco stocks at their high point in 1924 were only 35 per cent greater than in 1917, as compared with a 50 per cent increase for the United States.

The curtailment of tobacco production in Pennsylvania during 1926 will materially decrease stocks of Pennsylvania cigar leaf in 1927.

The outlook for the future for the Pennsylvania tobacco grower is brighter, as the market for his crop is slowly expanding and stocks are decreasing.

The grower should strive to keep production costs down, increase his yield per acre, improve the quality of his crop, and hold his acreage plantings within consumptive limits.

THE PENNSYLVANIA TOBACCO SITUATION

By H. Andrew Hanemann

Bureau of Markets

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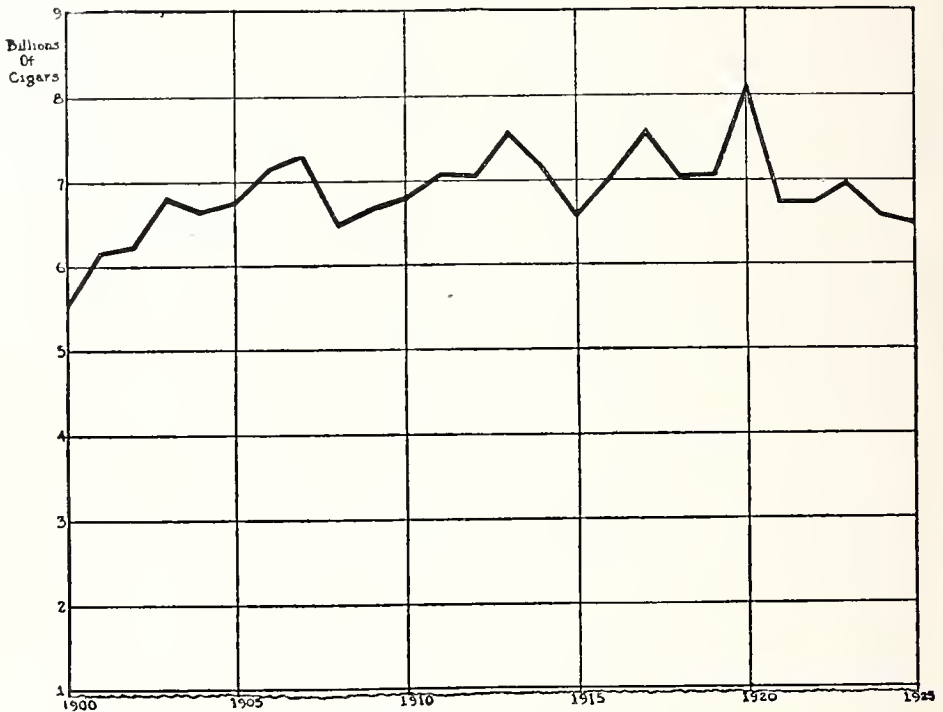
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During the last three years the outlook for the Pennsylvania tobacco grower has been far from bright. He has been faced with high production costs and steadily falling prices for his product. The average price per pound of the 1925 Pennsylvania tobacco crop was estimated to be 10.4 cents by the U. S. Department of Agriculture. This is nearly 7 cents less than the average price for the years 1916-20 inclusive and is only slightly above the average price for the pre-war years 1910-1914. During the period from 1910-1914 Pennsylvania tobacco brought an average of 8.75 cents a pound and during the years 1916-1920 it averaged 17.3 cents.

CIGAR AND CIGARETTE PRODUCTION

Cigar Production Decreases: The market for Pennsylvania tobacco, despite the increase in population of this country, has been shrinking since 1920. The cigar industry which is the principal user of Pennsylvania tobacco is losing ground to the new giant of the tobacco industry—the cigarette industry. In 1920, as is shown in Chart I, the cigar output in the United States exceeded 8,000,000,000 cigars but in 1925 production dropped to 6,500,000,000. During the same period the production of cigarettes nearly doubled. The output of cigarettes in 1920 was slightly less than 47,500,000,000 and in 1925 total production reached nearly 82,000,000,000. Production of Pennsylvania tobacco from 1921 to 1925 was almost constant and the decline in cigar production caused an accumulation of stocks on hand. From 1921 until 1924 average stocks of Pennsylvania tobacco held by manufacturers and dealers steadily increased although during the last two years (1925 and 1926) they have shown a slight decline. This increase of stocks has no doubt caused the sharp decline in tobacco prices.

Chart I. Large Cigar Production in the United States.



With the exception of 1920, when the output exceeded eight billion, the production of large cigars in the United States has remained almost constant since 1905, fluctuating around seven billion annually.

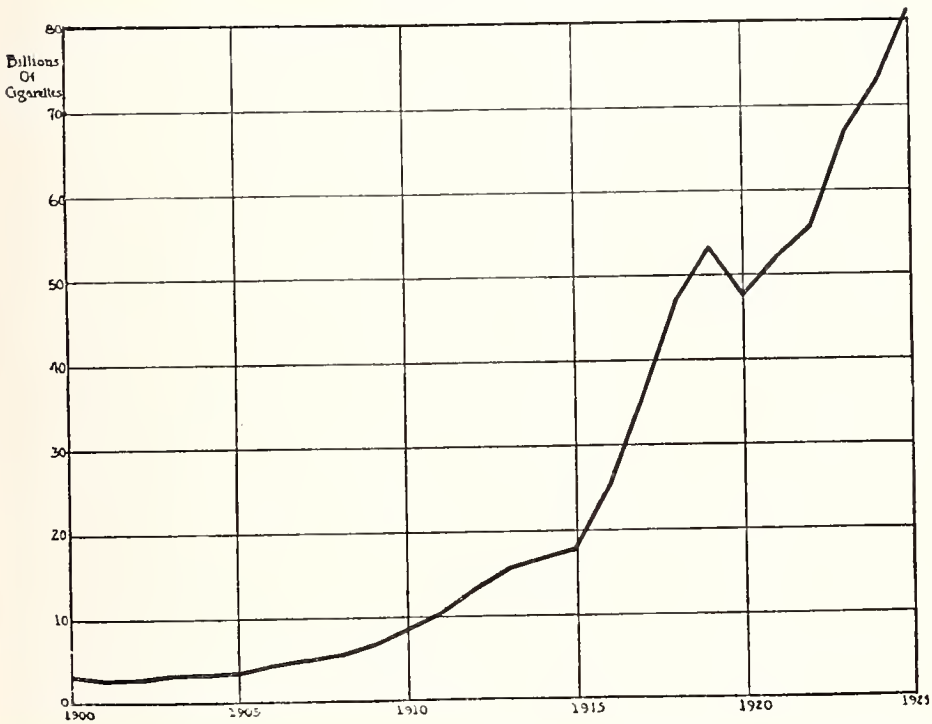
Source—Reports of the Commissioner of Internal Revenue, U. S. Treasury Department.

Cigarette Output Increases Sixteen Fold: From 1897 to 1907 the production of cigars showed a steady annual increase, mounting from 4,000,000,000 in 1897 to 7,300,000,000 in 1907. During the same period there was only a small increase in the production of cigarettes. In 1897 the production of cigarettes totaled 4,600,000,000 and during the next ten years it fell considerably below this amount, but from 1907 until the present the production of cigarettes in the United States has increased by leaps and bounds. From 1907 to date, with the exception of the year 1920, the production of cigars has remained almost stationary, being in the neighborhood of 7,000,000,000 annually. In 1920 the output of cigars exceeded 8,000,000,000 but in each year since then annual production has declined and in 1925 it was barely 6,500,000,000. Cigarette production, however, as is illustrated in Chart II, has climbed from 5,256,000,000 in 1907 to 81,923,000,000 in 1926.

Change in Smoking Habits: These figures show that the American public is changing its smoking habits and turning from the cigar to the cigarette. As no Pennsylvania tobacco is used in the manufacture of cigarettes this change is bound to affect the Pennsylvania tobacco

market. However, a close analysis of the cigar production statistics in which Pennsylvania tobacco is principally used does not paint as black a picture for the future of the Pennsylvania tobacco industry as a first glance would indicate. Pennsylvania tobacco is used chiefly in the lower priced cigars, particularly in Class A cigars. Class A cigars are those which retail for not more than 5 cents a piece. Considerable Pennsylvania tobacco is also used in Class B cigars which are those that retail at more than 5 cents and not more than 8 cents a piece. A few manufacturers of Class C cigars (which retail at more than 8 cents and not more than 15 cents) use Pennsylvania tobacco for filler, but the total amount which is consumed in this class is a small part of the whole.

Chart II. Cigarette Production in the United States.



Since 1905, except for the year 1920, the output of cigarettes has increased annually. During the decade from 1916 to 1925 annual production was trebled.

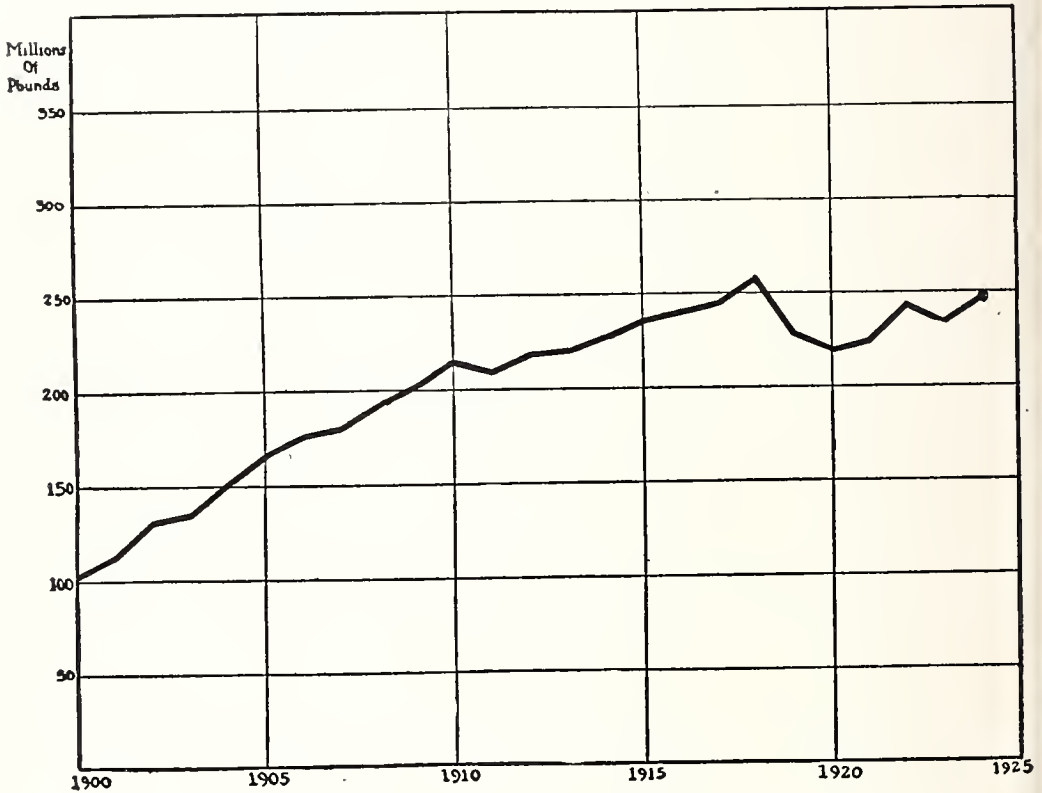
Source—Reports of the Commissioner of Internal Revenue, U. S. Treasury Department.

PRODUCTION OF CIGARS BY CLASSES

Production of Five Cent Cigar Increasing: Figures compiled by the Commissioner of Internal Revenue show that the highest production of Class A cigars occurred in 1918, the highest output of Class B in 1919 and the largest production of Class C in 1920. In 1918 more than 3,000,000,000 Class A cigars were manufactured but in the following year the output of this grade of cigars fell to 1,363,-

000,000. In 1920 production of Class A cigars was nearly twice as large as in 1919 amounting to 2,322,000,000. In 1921 there was again a sharp decline in the production of this class when the output dropped to 1,773,000,000. However, since 1921, as is illustrated in

Chart III. Production of Smoking Tobacco in the United States.



Up to 1918 the trend of production of smoking tobacco in the United States was constantly increasing. In 1919 and 1920 the annual outputs decreased, but since the latter year the trend of production has again turned upward.

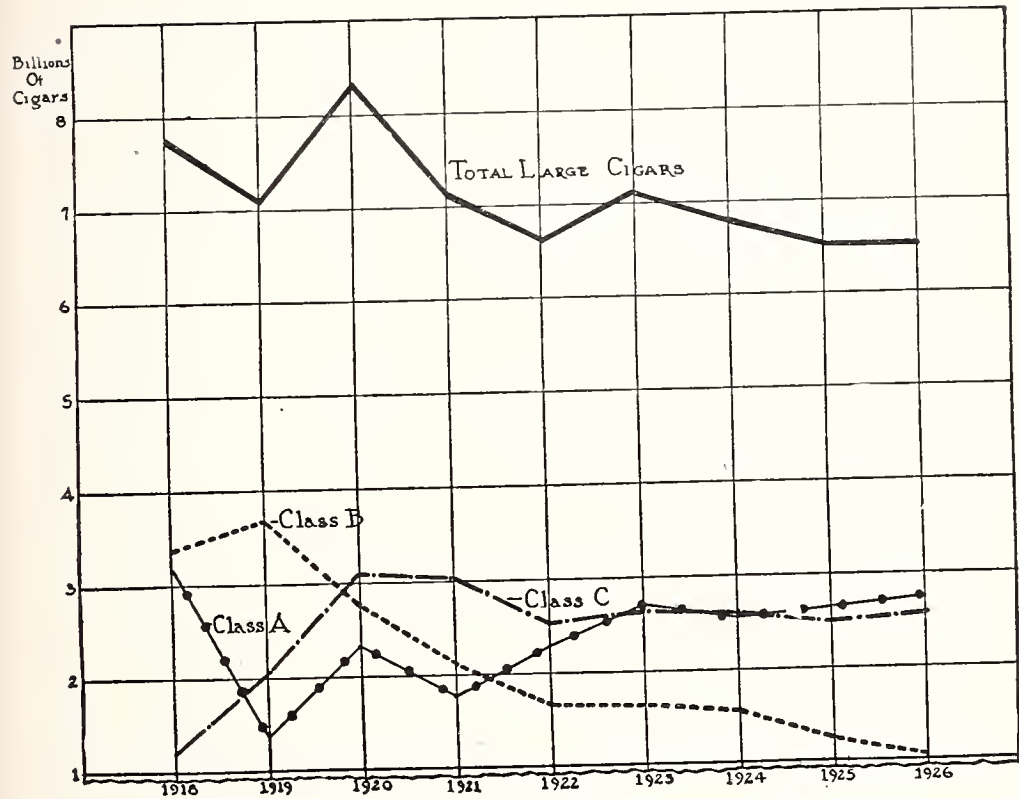
Source—Reports of the Commissioner of Internal Revenue, U. S. Treasury Department.

Chart IV, the production of Class A cigars has been slowly increasing. For the fiscal year ending June 30, 1926 the output of this Grade amounted to 2,749,000,000.

Sharp Decrease in Class B Cigars: In 1918 the production of Class B cigars exceeded 3,000,000,000 and in 1919 it surpassed 3,500,000,000 but for each year since that time, as can be seen in Chart IV, the output of this grade has steadily declined. During the fiscal year ending June 30, 1926, the production of Class B cigars amounted to only 1,043,000,000.

Chart IV. Production of Large Cigars in the United States.

(Fiscal years ending June 30th)



The trend of production of large cigars during the past five years has been downward. The trend of Class A production has been upward; that of Class B downward; and Class C has remained nearly constant.

Source—Reports of the Commissioner of Internal Revenue, U. S. Treasury Department.

Class C Output Stationary: The production of Class C Cigars in 1918 amounted to 1,194,000,000. During the succeeding two years the production of this class showed an annual increase of nearly 1,000,000,000 over the previous year until the high mark of production amounting to 3,081,000,000, was reached in 1920. The output of Class C cigars has declined since then, and at the close of the fiscal year ending June 30, 1926 it amounted to 2,550,000,000. However, for the last five years, as is shown in Chart IV, the production of this grade of cigars has remained almost constant, varying very little from 2,500,000,000 annually.

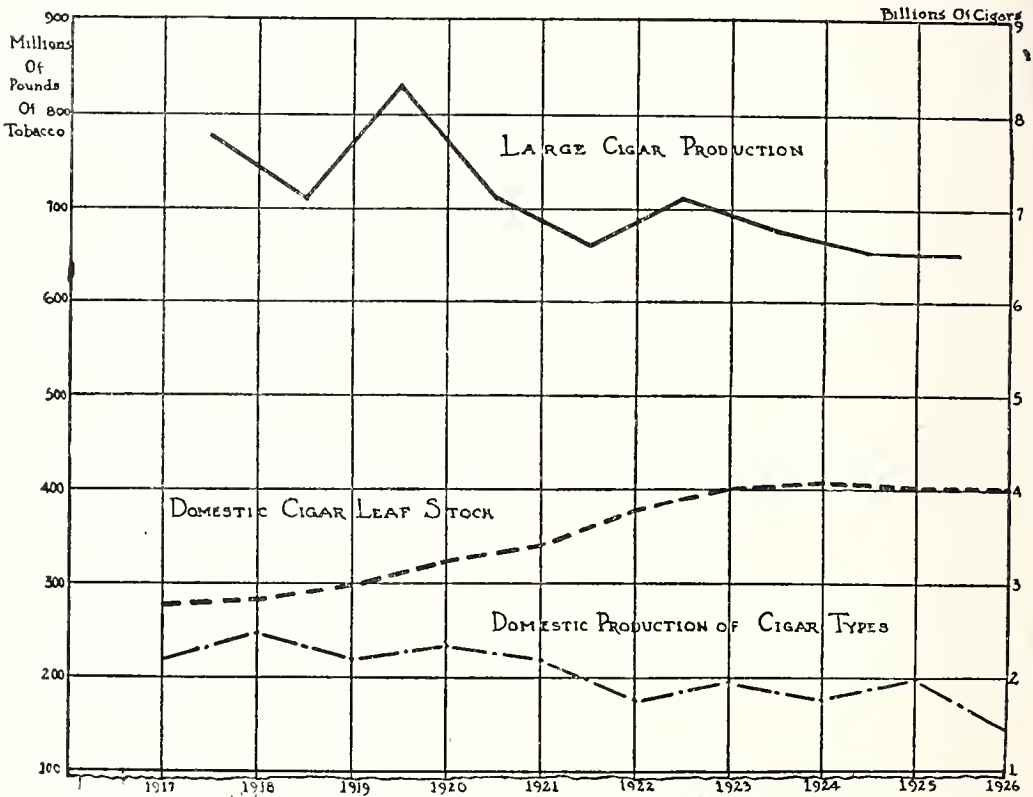
These statistics show that the trend of production of Class A cigars is slowly upward and that of Class B sharply downward while that of Class C is almost constant. The encouraging part of this analysis is the upward trend in production of the 5 cent cigar in which Pennsylvania tobacco is principally used. It shows that

the consumer prefers a 5 cent or 10 cent cigar and that the cigars which sell at prices between these are gradually losing his favor.

CIGAR LEAF TOBACCO STOCKS

Big Increase in Stocks in Decade: Figures compiled by the Bureau of the Census show that stocks of leaf tobacco in the hands of manufacturers and dealers are nearly 50% greater than they were

Chart V. Production and Stocks of Cigar Tobacco; Production of Large Cigars in the United States.



The general trend of production of cigars and cigar types of tobacco during the past eight years has been downward. Recently cigar leaf tobacco stocks have been decreasing, but for the seven years preceding the peak year of 1924 they were constantly increasing.

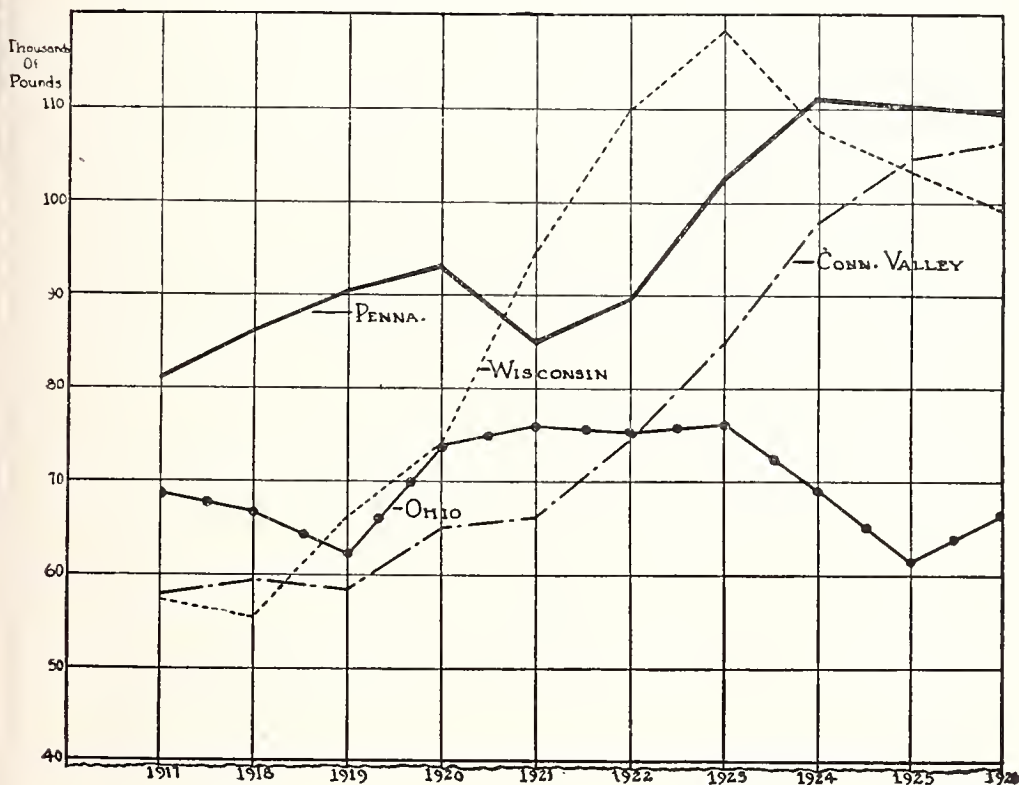
Sources—U. S. Department of Agriculture; Reports of the Commissioner of Internal Revenue, U. S. Treasury Department.

a decade ago. This is illustrated in Chart V. Stocks of Wisconsin and Connecticut Valley tobacco are nearly twice as large as they were ten years ago and stocks of Pennsylvania tobacco have increased about 35% in the last decade. Stocks of Ohio tobacco, the chief competitor of Pennsylvania, are about the same as they were ten years ago. However, the high point in cigar leaf tobacco accumulation was touched in 1924 when total stocks amounted to

407,000,000 lbs. Since then there has been a slight decline in the total amount of cigar leaf tobacco held in the United States. The average stocks for the four quarters ending October 1, 1926 were 401,000,000 pounds.

Chart VI. Stocks of Cigar Leaf Tobacco from Important Producing Areas held by Manufacturers and Dealers.

(Average of four quarters of year)



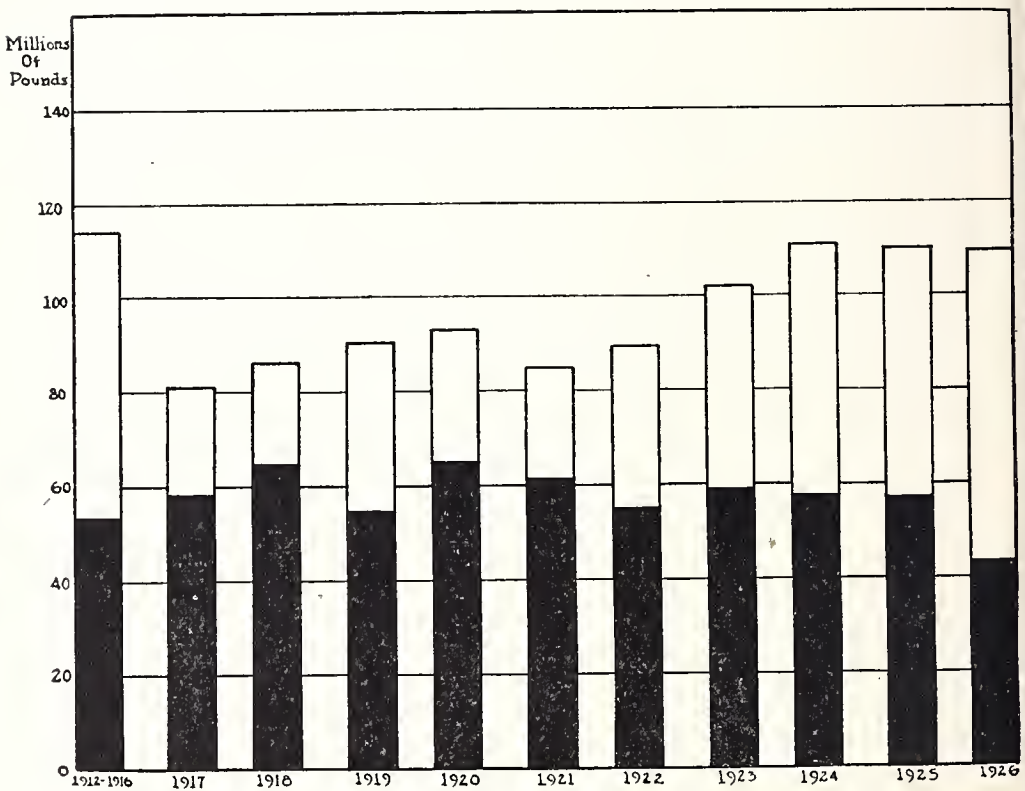
With the exception of Connecticut Valley tobacco, the stocks of tobacco on hand from the important cigar leaf producing areas have recently decreased. The peak in holdings of Connecticut Valley tobacco has not yet been passed.

Source—Bureau of the Census, U. S. Department of Commerce.

Pennsylvania Stocks Decreasing: The high marks in Wisconsin and Ohio tobacco stocks, as is shown in Chart VI, were attained in 1923 when the averages for the year amounted to 118,000,000 and 76,222,000 pounds, respectively. The high point in Pennsylvania cigar leaf stocks was reached in 1924 when an average of 111,000,000 pounds was held by manufacturers and dealers. Since the years of these high marks, as can be seen in Chart VI, there has been a gradual decline in the stocks of each of these grades. The trend of Connecticut Valley stocks, however, is still upward and in 1926 they

averaged 106,000,000 pounds which was nearly 50,000,000 pounds greater than the average stocks of 1917. These figures show that there has been a steady accumulation of all domestic cigar leaf tobacco but the accumulation of Pennsylvania tobacco has not been nearly as great as that of Connecticut Valley and Wisconsin tobaccos. As is illustrated in Chart VII, Pennsylvania cigar leaf stocks have never been as large during the last decade as were average stocks during the five year period of 1912 to 1916 inclusive. The average stocks of Pennsylvania tobacco in the hands of manufacturers and dealers from 1912 to 1916 amounted to 116,593,000 pounds.

Chart VII. Production and Stocks of Pennsylvania Tobacco.



Black—Production. White—Average stocks of four quarters of year. Pennsylvania tobacco stocks during the past ten years have never been as large as the average yearly stocks during the period from 1912 to 1916. Production in Pennsylvania, however, in each year since 1917, with the exception of 1926, has been larger than the five year average 1912-1916.

Sources—U. S. Department of Agriculture; Bureau of the Census. U. S. Department of Commerce.

Production Greater than Consumption: During the period from 1916 to 1925 the average annual consumption of Pennsylvania tobacco, based upon production and stocks statistics, was 56,123,000

pounds. The average annual production for the same period was 59,314,000 pounds. This shows that during the above period production of Pennsylvania tobacco has exceeded consumption by approximately 3 million pounds per year.

1927 Pennsylvania Stocks Will be Smaller: Preliminary estimates by the Department of Agriculture place the size of the 1926 crop at 43,560,000 pounds. This means that production will be far below the average consumption of the last decade. If 1926 consumption equals this average, and there is every reason to believe it will since the production of Class A cigars for the first ten months of 1926 was greater than during the same period of 1925, then the Pennsylvania tobacco stocks should be considerably smaller in October 1927 than they are now. On October 1, 1926 the stocks of Pennsylvania tobacco held by dealers and manufacturers amounted to 105,261,000 pounds as compared with 113,400,000 pounds on October 1, 1925, a decrease of over eight million pounds or 7.2 per cent. The 1926 crop will not be entirely in the manufacturers' and dealers' hands until midsummer of 1927 and since the crop is much smaller than the average for the last ten years, stocks held by manufacturers and dealers on October 1, 1927 should show a decided shrinkage from the total on October 1, 1926.

SUGGESTIONS FOR PENNSYLVANIA GROWERS

Low-priced Tobacco Needed For Five Cent Cigars: The future of the Pennsylvania tobacco industry is closely linked with that of the manufacture of 5 cent cigars. During the last two years a better quality 5 cent cigar has been on the market than at any time since the war and the consumption of this class of cigars is increasing. During the war and for several years following it the price of tobacco was so high that it was nigh impossible to make a good cigar for 5 cents. Low tobacco prices during the last two years have enabled manufacturers to produce a good 5 cent cigar and they can continue to make such a cigar only as long as they can obtain good tobacco at a moderate price. The history of the cigar industry during the last five years, as indicated by the decrease in the number of manufacturers and by mergers of several makers, shows that volume is essential for profits in the manufacture of cigars. Manufacturers state (and the trend of the industry supports the statement) that the margin of profit, per cigar, is much smaller today than it was before the World War and only by a big sales volume can they continue in business.

Keep Production Costs Down: Pennsylvania tobacco growers, therefore, should realize that their welfare is closely bound up with that of the cigar manufacturer. That the manufacturer realizes to

some extent that his welfare is dependent upon the grower is illustrated by the fact that one of the largest factors in the Pennsylvania tobacco market opened the market for the 1925 crop at 13 cents, per pound, when this crop could readily have been secured at a price possibly 2 or 3 cents lower per pound. The grower, therefore, should cooperate with the manufacturer and vice-versa. The grower should do everything in his power to keep his production costs as low as possible. He should strive to increase his yield per acre and to reduce his costs of producing tobacco.

Improve Quality: Very few manufacturers use Pennsylvania tobacco in Class C cigars (those that retail at more than 8 and less than 15 cents apiece) because only a small percentage of the Pennsylvania crop is high enough in quality to be used in this class. However, as some Pennsylvania tobacco is used in a few makes of 10 cent cigars, good Pennsylvania tobacco is suitable for use in the blending of this class and if growers would bend their energies to improving quality, more of our tobacco would be adaptable for use in higher priced cigars. The grower should familiarize himself with tobacco grades and insist that the manufacturer or dealer buys by grade. The manufacturer and leaf dealer should be willing to make the difference in price between grades high enough to make grading worth while for the grower. More careful handling of tobacco from the time it is harvested through all of the preparatory processes for marketing would undoubtedly place more Pennsylvania tobacco in the higher market grades.

Abandonment of Tobacco Growing Not Warranted: Although prices of tobacco at present are low, the Pennsylvania tobacco grower would in no wise be justified in abandoning his big drying sheds and expensive tobacco equipment. Wholesale discontinuance of tobacco growing in Pennsylvania is not justified by present conditions as every indication points to a gradually increasing outlet for this product. The war period is closed and the era of high prices for tobacco that resulted from the war is definitely over, so the tobacco grower must strive to the utmost to cut his costs of producing tobacco, produce a better quality crop and hold his acreage within the consumptive requirements.

Table I. Stocks of Tobacco Held by Manufacturers and Dealers¹,
1912-1926.

Thousands of Pounds
(000 omitted)

	Pennsyl- vania	Ohio	Connecticut valley	Wisconsin	Total Cigar Leaf
1912 October 1	118,782	89,575	43,777	71,157	339,150
1913 April 1	141,015	90,327	51,980	93,764	393,556
October 1	127,345	84,081	44,164	72,988	346,048
1914 April 1	125,606	82,136	55,977	85,741	367,213
October 1	113,913	68,521	50,202	71,334	322,729
1915 April 1	127,239	91,029	60,696	88,662	386,859
October 1	105,460	74,329	57,771	78,891	335,368
1916 April 1	109,392	74,191	67,732	86,796	356,008
October 1	79,294	59,913	54,529	59,783	270,275
1917 January 1	69,536	50,304	50,603	46,473	231,738
April 1	90,751	84,505	61,598	62,592	312,410
July 1	87,922	74,924	64,632	66,877	304,505
October 1	76,503	64,379	54,641	53,051	262,272
1918 January 1	62,970	52,590	51,723	40,714	223,433
April 1	99,766	71,822	66,872	64,947	319,935
July 1	96,753	75,658	63,719	65,207	315,915
October 1	85,127	66,713	54,600	50,784	274,638
1919 January 1	75,764	61,023	52,972	44,411	254,309
April 1	94,496	56,282	61,815	72,145	303,599
July 1	99,954	62,094	65,909	79,407	323,531
October 1	91,696	69,305	53,631	68,713	302,972
1920 January 1	80,439	71,550	56,533	54,758	283,304
April 1	105,736	64,602	72,141	71,221	328,725
July 1	98,671	79,350	72,605	84,292	350,693
October 1	87,750	79,763	61,008	85,344	331,849
1921 January 1	69,445	70,173	66,370	77,181	297,472
April 1	93,919	78,771	72,141	102,404	367,854
July 1	93,622	76,225	68,141	103,535	359,095
October 1	83,072	78,393	63,678	93,475	338,202
1922 January 1	69,854	71,414	66,618	82,767	313,316
April 1	96,827	75,579	75,705	103,690	401,633
July 1	101,276	79,182	80,274	132,009	413,540
October 1	90,258	73,974	74,094	120,653	382,586
1923 January 1	81,375	64,026	75,822	102,653	346,604
April 1	119,621	85,024	90,911	125,742	441,590
July 1	110,387	81,719	89,952	126,919	425,000
October 1	99,080	74,119	82,685	117,166	353,489
1924 January 1	87,395	62,531	84,796	99,798	358,256
April 1	127,273	60,244	104,901	105,828	420,936
July 1	120,441	80,193	106,956	116,353	442,696
October 1	109,726	73,731	94,322	110,005	407,066
1925 January 1	97,444	65,612	89,419	97,749	371,043
April 1	118,585	63,296	113,155	107,438	422,906
July 1	122,487	61,024	112,453	110,344	423,975
October 1	113,400	56,381	103,987	98,223	389,913
1926 January 1	97,585	51,650	103,230	83,895	356,119
April 1	117,539	67,024	114,151	114,828	433,479
July 1	118,905	75,003	108,992	105,421	424,460
October 1	105,261	71,694	98,661	93,203	389,178

¹Data from Bureau of the Census, U. S. Department of Commerce.

Table II. Production of Cigar Leaf Tobacco in Leading Producing States, 1900-1926.¹

Thousands of Pounds

(000 omitted)

	Pennsyl- vania	New England	Wisconsin	Ohio	New York	Georgia & Florida
1900	36,803	25,803	54,126		10,101	
1901	28,071	26,434	52,441		10,020	
1902	22,018	29,203	64,885		10,050	
1903	22,496	28,164	69,946		8,955	
1904	18,635	28,918	52,474		6,288	
1905	20,994	31,314	53,533		7,061	
1906	35,750	32,778	49,725		8,842	
1907	40,320	28,911	38,610		8,165	
1908	35,008	30,668	39,550		7,258	
1909	30,732	29,150	31,500	54,587	7,050	4,992
1910	49,500	30,794	31,710	56,000	7,375	3,468
1911	65,320	36,865	51,250	55,800	5,054	3,524
1912	64,090	39,950	54,438	53,460	5,200	3,766
1913	46,680	38,295	50,740	37,449	4,386	5,800
1914	47,995	47,051	53,808	54,144	5,980	6,200
1915	42,390	38,270	36,900	54,270	5,280	5,045
1916	49,096	51,285	55,753	58,200	4,551	4,556
1917	58,100	46,200	44,500	61,692	3,125	5,010
1918	64,752	52,500	65,170	53,000	3,750	7,084
1919	54,120	54,400	60,960	40,000	3,483	5,890
1920	64,930	59,960	62,400	37,282	2,560	6,340
1921	61,320	58,774	61,488	28,814	2,500	5,040
1922	56,760	38,872	45,600	26,299	2,220	4,850
1923	58,950	52,942	48,092	25,530	2,250	5,960
1924	57,500	51,790	35,720	25,000	2,350	4,584
1925	57,400	50,709	44,000	39,118	2,200	3,514
1926 ²	43,560	38,758	33,350	23,354	2,200	3,463

¹Data from U. S. Department of Agriculture.

²Preliminary figures.

Table III. Production of Cigars, Cigarettes and Smoking Tobacco in the United States¹.

Calendar Years
(000,000 omitted)

Year	Actual Number Large Cigars	Actual Number Small Cigars	Actual Number Cigarettes	Pounds Smok- ing Tobacco
1897 -----	4,136	295	4,632	85
1898 -----	4,459	457	4,384	89
1899 -----	4,910	622	3,742	102
1900 -----	5,566	611	3,254	102
1901 -----	6,139	775	2,723	112
1902 -----	6,232	676	2,961	131
1903 -----	6,806	592	3,300	134
1904 -----	6,640	736	3,427	149
1905 -----	6,748	804	3,667	165
1906 -----	7,148	990	4,501	176
1907 -----	7,320	1,074	5,256	179
1908 -----	6,489	1,073	5,743	192
1909 -----	6,668	1,043	6,819	202
1910 -----	6,810	1,118	8,644	214
1911 -----	7,049	1,214	10,469	209
1912 -----	7,044	1,055	13,167	217
1913 -----	7,572	959	15,556	221
1914 -----	7,174	1,075	16,856	227
1915 -----	6,599	365	17,964	235
1916 -----	7,042	890	25,290	240
1917 -----	7,560	967	35,331	244
1918 -----	7,054	847	46,657	258
1919 -----	7,072	713	53,120	229
1920 -----	8,097	633	47,430	219
1921 -----	6,726	670	52,085	223
1922 -----	6,722	633	55,763	243
1923 -----	6,950	505	66,716	235
1924 -----	6,598	531	72,709	247
1925 ² -----	6,501	448	81,926	(3)

¹Compiled from the reports of the Commissioner of Internal Revenue, U. S. Treasury Department.

²Preliminary figures.

³Separate figures not available.

Table IV. Cigars Withdrawn for Consumption¹.

(Based on Sale of Stamps)

Fiscal years ending June 30.

	Class A	Class B	Class C	Class D	Class E	Total
1918 -----	3,177,044,080	3,333,539,850	1,194,267,843	12,903,957	16,553,450	7,784,300,180
1919 -----	1,363,576,905	3,675,935,195	2,025,514,847	20,905,797	24,944,856	7,110,877,600
1920 -----	2,322,092,275	2,760,450,792	3,081,077,398	88,774,223	52,224,074	8,304,618,762
1921 -----	1,773,588,083	2,131,201,227	3,033,119,216	165,135,953	45,818,759	7,148,863,238
1922 -----	2,285,329,690	1,660,759,580	2,525,740,254	116,813,008	32,530,808	6,621,173,340
1923 -----	2,692,264,025	1,644,900,913	2,637,229,049	119,477,245	34,149,627	7,128,020,859
1924 -----	2,564,008,130	1,487,417,728	2,581,207,993	128,122,632	33,391,311	6,794,147,794
1925 -----	2,628,629,930	1,243,350,103	2,487,300,872	135,379,836	36,254,226	6,530,914,967
1926 -----	2,749,953,860	1,043,464,582	2,550,150,896	147,701,385	34,964,629	6,526,235,352

¹Data from reports of the Commissioner of Internal Revenue, U. S. Treasury Department. Figures include imported cigars.